

Loss Mitigation

Prescribed set of default workout options that allow lenders to effectively work with delinquent borrowers of FHA single-family loans to find solutions to avoid foreclosure.

Nature of Program: FHA Loss Mitigation delegates to lenders both the authority and the responsibility to utilize certain actions and strategies to assist borrowers in default or imminent default to avoid foreclosure and, thereby, reduce losses to the insurance fund. There are several different kinds of loss mitigation options available. The availability of and requirements for each type will vary according to the borrower's circumstances and the program under which it is offered.

After evaluating a delinquent mortgagor for Informal and Formal Forbearance Plans, FHA's loss mitigation options must be considered in the following order: (1) special forbearances; (2) loan modifications; and (3) FHA-HAMP (an option that involves the use of a loan modification and/or partial claim). If the borrower is unable or unwilling to support the mortgage debt, lenders/loan servicers must consider use of other loss mitigation tools, including a pre-foreclosure sale or a deed in lieu of foreclosure, before initiating legal action to foreclose the mortgage.

HUD encourages lenders/loan servicers to utilize loss mitigation by reimbursing administrative costs (title reports, recording fees) involved in these actions and by paying financial incentives. Though lenders have flexibility in selecting the loss mitigation strategy appropriate for each borrower, participation in the loss mitigation program is not optional. Prior to initiation of foreclosure, lenders are required to evaluate all defaulted borrowers for loss mitigation options eligibility, quickly activate appropriate loss mitigation options, provide housing counseling availability information, consider all reasonable means to assist the borrower in addressing the delinquency, and retain written documentation of compliance with loss mitigation requirements. Failure to comply may result in the loss of incentive compensation, interest curtailment, and other financial and administrative sanctions, including withdrawal of HUD's approval of a lender.

Applicant Eligibility: Borrowers in default or facing imminent default and who occupy the mortgaged property as a primary residence may be eligible for home retention loss mitigation.

Legal Authority: Sections 204(a) and 230 of the National Housing Act (12 U.S.C. 1710 and 12 U.S.C. 1715u). Regulations are at 24 CFR part 203.

Administering Office: Assistant Secretary for Housing-Federal Housing Commissioner, U.S. Department of Housing and Urban Development, Washington, DC 20410.

Information Sources: HUD's National Servicing Center (Oklahoma City).
On the Web: http://portal.hud.gov/hudportal/HUD?src=/topics/avoiding_foreclosure

Current Status: Active.